

# INSIGHTS

A QUARTERLY WEALTH MANAGEMENT PUBLICATION of FERGUSON WELLMAN, OCTAVIA GROUP and WEST BEARING



## CREATING A FAMILY LEGACY OF GIVING



INSIGHTS  
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*Founded in 1975, Ferguson Wellman is a privately owned registered investment adviser, established in the Pacific Northwest. As of January 1, 2024, the firm manages more than \$8.4 billion for more than 990 clients that include individuals and families; Taft-Hartley and corporate retirement plans; and foundations and endowments with portfolios of \$4 million or more.*

*West Bearing Investments, a division of Ferguson Wellman, serves clients with assets starting at \$1 million.*

*Octavia Group, Ferguson Wellman's private family office, provides fee-based services for clients with \$10 million managed by our firm.*



**SAMANTHA PAHLOW, CTFA, AWMA®**  
*Wealth Management Chair  
Senior Vice President*

**EACH OF OUR CLIENTS HAS DIFFERENT LEGACY** goals, and for some, philanthropy is an important part of the impact they wish to make on this world. Our role as advisors is to support our clients' unique values and priorities. We recognize that many families wish to create a lasting tradition of giving and engagement. For those who want to instill philanthropic values in their children and establish a family vision around charitable giving, we offer guidance on how to start this meaningful journey.

**Include your children.** Parents can include children in their philanthropic activities to foster a commitment to supporting important causes. Often, this begins with opening a dialogue around why philanthropy matters. Whether your children are young or grown, it's never too late to discuss the importance of helping others, contributing to the community and positively impacting the world. Encourage children to share their thoughts and feelings about giving, and concerns about their community needs. By listening to their ideas, they will feel their perspective is valued and they can play an integral role in the family's philanthropic efforts.

**Make it a habit.** Incorporating acts of giving into everyday life, especially while children are young, can make philanthropy a natural part of their world. Simple actions, such as donating toys,

participating in neighborhood clean-ups, or setting aside a portion of their weekly allowance for charity, can help children see the direct impact of their contributions. These small actions can lay the groundwork for a lifelong habit of giving. You can also share stories about your own experiences with philanthropy, the needs you see in our world and reasons you support your chosen causes. This transparency helps children understand the motivation behind giving and the joy in helping others.

**Establish a unified vision.** It can be helpful to create a family vision or mission statement around giving. As a family, sit down and discuss what you want your collective impact to be. What causes resonate with everyone? What values do you want to prioritize and why? Craft a family mission statement that reflects these shared goals. This mission statement can serve as a guiding principle for your philanthropic activities and dollars, supporting a shared experience of giving with the family working together toward a common vision.

Involving children in philanthropy is not just about teaching them to give; it's about nurturing a sense of empathy, responsibility and community. By embedding these values into your family's daily life and creating a shared vision for giving, you can cultivate a legacy of philanthropy that will resonate with your children and future generations to come.

*Our Ferguson Wellman logo is based on a bronze coin of Marcus Aurelius Antoninus, emperor of Rome from A.D. 161 to 180. According to historian Edward Gibbon, he was the only person in history in which, "the happiness of a great people was the sole object of government." Marcus Aurelius was the author of a series of personal writings and meditations that revealed a mind of great humanity, natural humility and wisdom.*

INVESTMENT EXCELLENCE  
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# WHAT CAN I DO TO MANAGE MY INCOME TAX BILL?

**MARY LAGO, CFP®, CTFA®**

Chief Wealth Strategist

Principal



## IN THE WORLD OF TRUSTS AND ESTATE THERE

are certain rhythms in the wealth management industry. For example, come April, we expect to receive questions from clients about what steps they can take to manage their income tax bill. Our role as portfolio and wealth managers is distinct from that of a CPA, but we do take our role in tax-efficient investing, retirement account elections and wisely structured charitable giving seriously. As April 15 passes, there is nothing we can do to help with the immediate tax bill, but we actively anticipate the impact of Uncle Sam as we structure and manage investment portfolios, consider retirements strategies and facilitate charitable giving.

**Tax-efficient investing:** There are many ways to be tax-efficient in your investing. Perhaps the most broadly discussed aspect of tax-efficient investing is managing the amount of capital gains realized each year to reduce the subsequent capital gains tax bill. Limiting the realization of capital gains can be an effective technique along with harvesting losses to offset gains. You can expect to see an increase in tax-loss harvesting in the fourth quarter when we have greater clarity on other tax events for the year. Gains on assets that have been held for more than one year are generally subject to preferential long-term capital gains rates, which for most are significantly lower rates than the rates that apply to ordinary income. For example, in 2024, a married couple filing jointly (MFJ) can realize up to \$583,750 in long-term capital gains before moving from the 15% bracket into the 20% federal capital gains tax bracket. By comparison, if the income was from short-term capital gain, wages or other “ordinary

income,” they would be in the 35% bracket on income that exceeded \$487,450 (see bracket information in charts below). Note an additional 3.8% net investment income tax applies to investment income that exceeds \$250,000 for MFJ filers.

Likewise, dividends on investments that meet the holding requirements, generally about two months, are referred to as “qualified dividends” and benefit from the same preferential tax rates and expanded brackets as long-term capital gains. The net result is that long-term investors will generally pay lower tax rates compared to others with similar income levels.

In building a bond portfolio, tax-wise managers will consider the effective income tax rates for an investor in addition to characteristics such as duration and credit quality. In general, interest earned on municipal bonds issued by the state in which the investor resides will be exempt from both state and federal income tax. U.S. Treasury bond interest is exempt from state income taxes but is subject to federal taxation, while corporate bonds are fully taxable at both the state and federal levels. In evaluating available yields in the bond universe, calculating the highest after-tax yields is a straightforward and worthy endeavor. Note that interest is taxable as ordinary income and does not qualify for the preferential tax rates for dividends. Regardless of the effective income tax rate of an individual, retirement accounts are generally invested in taxable bonds because it is distributions, rather than income, that trigger taxation.

## 2024 Federal Ordinary Income Tax Brackets

| Tax Rate | For Single Filers      | For Married Individuals Filing Joint Returns |
|----------|------------------------|--|
| 10%      | \$0 to \$11,600        | \$0 to \$23,200                              |
| 12%      | \$11,600 to \$47,150   | \$23,200 to \$94,300                         |
| 22%      | \$47,150 to \$100,525  | \$94,300 to \$201,050                        |
| 24%      | \$100,525 to \$191,950 | \$201,050 to \$383,900                       |
| 32%      | \$191,950 to \$243,725 | \$383,900 to \$487,450                       |
| 35%      | \$243,725 to \$609,350 | \$487,450 to \$731,200                       |
| 37%      | \$609,350 or more      | \$731,200 or more                            |

Source: Internal Revenue Service, “Revenue Procedure 2023-34”

## 2024 Federal Capital Gains Tax Brackets

| Tax Rate | For Unmarried Filers, Taxable Income Over | For Married Individuals Filing Joint Returns, Taxable Income Over |
|----------|---|---|
| 0%       | \$0                                       | \$0   |
| 15%      | \$47,025                                  | \$94,050  |
| 20%      | \$518,900                                 | \$583,750   |

Source: Internal Revenue Service, “Revenue Procedure 2023-34”

*The laurel is part of our Octavia Group branding. Octavia the Younger was one of the most prominent women in Roman history. She was respected for her nobility and humility. Octavia was hailed as a “marvel of womanhood” and was a political advisor between her brother and husband. She was immune from the “tutela,” which placed in her the unique position of managing her own finances.*

In summary, portfolio income can be very tax-efficient when the following disciplines are applied in the construction and management of the portfolio:

- Managing the realization of gains in the context of a managing investment opportunity and risk
- Harvesting losses to offset realized gains
- Paying attention to short-term versus long-term gains
- Seeking qualified dividend income
- Selecting bonds that achieve the highest after-tax return given the investors effective tax rate

A fundamental concept Ferguson Wellman uses in managing portfolios is, *it's not what you make, it's what you keep*, which refers to the importance of considering taxes when implementing investment changes.

**Retirement accounts:** The rules and tax treatment that apply to both the savings and distribution of retirement accounts are complex and ever-changing. Another truism we believe in is that *the tax code favors the well informed*. Most savers recognize the relative benefits of contributing to a Roth, or after-tax retirement account early in their career (before their earnings reach their peak and when funds have an extended timeframe to compound and grow) and a pre-tax or tax-deferred retirement account during years when their income is at its highest level. Approaching retirement with both pre-tax and after-tax savings allows additional flexibility to be strategic in timing withdrawals from different accounts based on other circumstances. While these are useful guideposts, more thoughtful evaluation of the overall income tax environment and other factors that could impact taxable income, such as inheritance, and the relative level of wealth should also be considered when evaluating the optimal retirement savings approach. When the IRS removed the income limits for converting pre-tax to after-tax (Roth) accounts, it introduced more opportunities for investors to evaluate and optimize their retirement savings strategies. We now routinely see circumstances where accelerating income through a Roth conversion is projected to save clients significant income and estate taxes, especially with income tax rates scheduled to increase in 2026 when the Tax Cuts and Jobs Act sunsets. Another regulatory change that has created the need to evaluate clients' broader goals in structuring retirement distributions is the opportunity to gift to charity directly from retirement accounts. Known as qualified charitable distributions, QCDs are direct distributions to charity that

avoid the realization of income on distributions, while still applying toward any required minimum distribution (RMD) mandated by the IRS. While QCDs may be completed as soon as the investor reaches age 70.5, it generally does not make sense to employ this strategy until an investor is subject to RMDs, now typically mandated at age 73, and generally only if the investor is not itemizing deductions on their tax return.

**Charitable giving:** When suitable, QCDs are a great example of tax-wise charitable giving, but there are many opportunities to maximize the tax value of your desired charitable impact. Another simple and common strategy involves grouping your charitable gifts into a single year, either giving directly to charity or using a donor advised fund. With the higher standard deductions implemented by the Tax Cuts and Jobs Act, grouping can meaningfully increase your tax saving, especially when combined with other strategies, such as gifting long-term appreciated property. Anyone planning to leave significant funds to charity at the time of their death will also want to consider the source of funding the charitable gift, such as using their pre-tax IRA, and other strategies, including a charitable remainder trust.

**Other tax considerations:** Another common event that can trigger taxation is the sale of a home. So long as the home has been your primary residence for two of the last five years, each spouse will typically qualify for a \$250,000 capital gains tax exemption. Your mortgage may be providing you tax savings as interest on the first \$750,000 (\$1 million if you were grandfathered in before December 16, 2017) of debt for MFJ used to acquire or improve a home is deductible. Contributions to traditional retirement accounts, health savings accounts and flexible spending accounts can also reduce your tax bill. Some states offer an income tax deduction or credit for funding 529 accounts, but there is no federal tax deduction at the time of funding.

We hope we have offered some peace of mind as you consider the tax-efficiency your Ferguson Wellman and West Bearing team is helping you achieve and inspired you with a few ideas you may wish to explore further. As with all tax matters, these concepts involve detail, nuances and exceptions; the best results can be achieved through collaboration with you, your tax advisor and your portfolio manager.

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*Our West Bearing logo is inspired by the American bison, an iconic creature symbolizing resilience, grace and the western path to growth and opportunity. Most animals attempt to outrun inclement weather, prolonging their exposure to the elements and, in doing so, weaken their conditions. Only bison instinctively turn to face the storm, often bearing west, to find the quickest path to clear skies.*



# CONSIDERATIONS FOR THE CHANGING PHILANTHROPIC LANDSCAPE

## NATE PUTNAM, CFP®

Vice President

Portfolio and Wealth Management



### THE TAX CUTS AND JOBS ACT,

which went into effect in 2018, includes many provisions that, as of now, will sunset at the end of 2025 unless Congress intervenes. This sunset will impact the charitable and philanthropic landscape.

Under current tax law, the standard deduction for 2024 is \$14,600 per individual, or \$29,200 for married couples filing jointly. Typically, a taxpayer will itemize their deductions if the total exceeds the standard deduction. With the Tax Cuts and Jobs Act sunset, the standard deduction is anticipated to be cut roughly in half. Additionally, the \$10,000 limit on deductions for state and local tax (SALT) is expected to sunset as well. The combination of the lower standard deduction in conjunction with the eliminated SALT limit means more people will have the opportunity to itemize deductions. As a result, strategies such as bunching charitable contributions into a single tax year may not be as impactful.

Donor-advised-funds (DAFs) have grown in popularity over recent years, with many using them as a receptacle for donations to exceed the higher standard deduction by bunching them into a single year. While bunching may become less needed with the drop in the standard deduction, we expect DAFs to remain popular for several reasons. Additional benefits include: the ability to give appreciated securities for added tax savings, efficient tax reporting and a low-cost method of establishing multigenerational philanthropic legacy. DAFs can also be used to 'front load' years of planned charitable giving, resulting in the tax benefit or tax deduction being received in the year the donation is made to the DAF. For individuals and families with large Roth conversions, property sales or business transactions, DAFs provide a strategic option to receive a meaningful tax deduction in the year the tax savings would be most impactful.

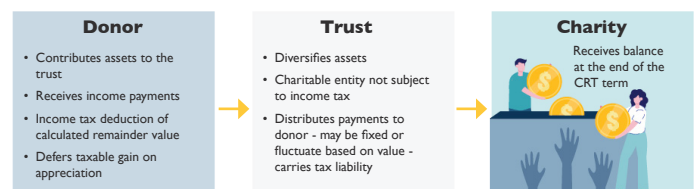
Another popular charitable strategy includes giving from retirement accounts. As Mary Lago mentioned in the previous article, lifetime direct gifts from a traditional IRA can be an efficient way to meet your required minimum distribution. However, it is also efficient to leave IRA assets to charity through your estate plan. Unlike certain taxable accounts that can receive a step up in basis at the time of passing, a traditional IRA account does not. In most situations, withdrawals from an inherited traditional IRA will be taxed as ordinary income, and often have a 10-year window in which the account needs to be fully distributed

by the inheritor. That being said, exceptions do exist. This can cause adverse tax consequences for an individual inheritor. On the other hand, a qualified charitable organization pays no taxes on liquidating the IRA. Thus, naming a charity as the beneficiary can be a tax-efficient way to meet your charitable and legacy planning goals, while reducing taxes owed otherwise by your estate or family members.

Another change this year and throughout 2025 is the Fed's interest rate cuts. As a result, the landscape for charitable remainder trust planning should be a consideration.

Charitable remainder trusts offer current payments to the donor (or individual beneficiary) with the remainder going to charity upon termination of the trust. They are typically most advantageous when interest rates are elevated. With higher interest rates, the payments generated by a charitable remainder trust can increase, providing the donor with greater income payments. Additionally, a high interest rate environment can enhance the charitable tax deduction the donor receives, as the calculated residual value being left to charity is larger. This means the donor can claim a larger tax deduction upfront while also receiving larger payments during life. With a falling interest rate environment, now could be an opportunistic time for to utilize a charitable remainder trust.

### Charitable Remainder Trusts (CRTs)



- A charitable remainder trust may be a useful option for individuals who are charitably inclined and wish to diversify out of appreciated property
- In using a CRT, individuals may defer capital gains until distribution to the income beneficiary, effectively spreading the tax burden out over time
- CRTs allow individuals to convert their low-basis assets into a taxable stream of income
- A taxable gift may occur if someone other than the donor is designated as the income beneficiary
- A donor-advised fund may be appointed as the charitable remainder beneficiary contributes assets to the trust

If you have not reviewed your charitable giving strategies in recent years, we encourage you to work with your tax professional, attorney and our portfolio managers to review your current strategy and explore opportunities for increased efficiency with your giving.